

## RECOMMENDATION: CHANGE ASSET ALLOCATION LANGUAGE

The current investment policy statement anticipates moving the portfolio from intermediate to short-term securities according to a schedule. This schedule might require us to move a significant portion of the intermediate into short-term portfolios Oct. 1 of this year.

I say “might” because the policy is somewhat ambiguous on time periods. The IPS lists years which are probably intended to refer to fiscal years but might also be interpreted as referring to calendar years, and requires compliance to the new asset mix on Oct. 1. Does 2012 mean Oct. 1, 2012, or fiscal 2012 beginning Oct. 1, 2011? Also, the policy requires us to hit the targets on a specific day, giving little leeway to manage the portfolios most effectively.

I believe the policy should be modified to clarify this ambiguity in favor of the schedule that moves from intermediate to short more slowly. Intermediate bonds are now giving us higher returns and will continue to do so unless interest rates spike in the next two years.

Several things have changed since this schedule was first conceived.

- 1) The economic recovery remains tepid; the Fed is still considering actions that could depress interest rates further;
- 2) Payouts of the plan are slower than expected;
- 3) The settlement may extend the life of the plan.

For these reasons I believe using the interpretation that extends the time period during which the fund will move from mostly intermediate to all short will likely boost return slightly. However, this action could hurt slightly if interest rates spike up sharply in the next two years.

I have also suggested minor changes in the language to remove ambiguity and grant some leeway in meeting targets. Added language is underlined in the NEW section.

## OLD

The Board hereby establishes the following asset allocation targets as presented in the following table. These targets are to be adjusted annually on the first day of the Fiscal Year which runs from Oct. 1 to Sept. 30.

Year	Intermediate Duration Fixed Income	Short Duration Fixed Income
2011	75%	25%
2012	50%	50%
2013	25%	75%
2014	0%	100%
2015	0%	100%

## NEW

The Board hereby establishes the following asset allocation targets as presented in the following table. These targets are to be adjusted annually on the first day of the Fiscal Year which runs from Oct. 1 to Sept. 30. The Board has one quarter before and after the first day of the fiscal year to bring the asset allocation into compliance. Portions of the portfolio not invested in the short- and intermediate-term portfolios, including residual balances in equity funds and the illiquid bond portfolios, may be ignored for this purpose.

Year	Intermediate Duration Fixed Income	Short Duration Fixed Income
<u>Oct. 1, 2011</u>	75%	25%
<u>Oct. 1, 2012</u>	50%	50%
<u>Oct. 1, 2013</u>	25%	75%
<u>Oct. 1, 2014</u>	0%	100%
<u>Oct. 1, 2015</u>	0%	100%

Barry Bryant  
Managing Director  
Dahab Associates